



Transition to Financial Rights

**FERC SMD Tech. Conf. 12/3/02 on
Congestion Revenue Rights (CRRs)**

- 1. Standard Market Design NOPR, Docket RM01-12-000 Technical Conference**
- 2. To be addressed: Issues related to the transition to Congestion Revenue Rights proposed in the SMD NOPR**
- 3. Panels:**
 - RTO/ISO: RTO West, NYISO, SeTrans, ISO NE, PJM**
 - Industry: AEC, EEI, CC, TANC, PG&E, IECG, Energy East
Williams, ELCON, Duke, WEPC, BPA, TAPS, ODEC**
 - States: Pennsylvania, Missouri, Oregon, Arkansas,
NWPPC**



FERC CRR Tech Conf. 12/3/02

RTO/ISO Discussion Topics

- 1. What process is proposed by ISO/RTO to transition to a congestion management system that uses financial rights, such as CRRs or FTRs from existing rights including:**
 - Pre-888 contracts
 - Firm Point-to Point contracts
 - Network contracts
 - Native load
- 2. Special provisions included in the transition process to address special circumstances such as:**
 - Load Pockets
 - Special Regional Characteristics
- 3. Process used to acquire additional financial rights after the initial allocation to handle load growth**
- 4. General principles that should be used for the transition process in the SMD Final Rule**



FERC CRR Tech Conf. 12/3/02

Major Messages from RTO West

- 1. RTOW Congestion Management Proposal differs slightly from SMD but fits SMD framework; fits needs and characteristics of the Northwest**
 - **Special Characteristics: Hydro - Thermal Coord. Gen; Robust/Lean, non-homogeneous, tailored Transmission System; level of bilateral contracts**
 - **Diversity of System**
 - **Large number of non-jurisdictional utilities in region**
- 2. RTOW meets Order 2000 CM and provides congestion hedges two ways: FTOs or CTRs, (instead of CRRs)**
- 3. Transition from pre-existing rights to financial rights happens by customers either taking “CTR Service” (keeping existing rights), or converting to “RTOW Service” and receiving FTOs**
- 4. Special Regional Provisions / Variations must be allowed; needed for managed transition, voluntary participation, timely completion**



Special Circumstances in RTO West requiring Special Provisions

- 1. Initial Rights Allocation - Cataloged Transmission Rights (CTRs) with provision to convert to FTOs**
 - System Characteristics
 - High Level of Bilateral Contracts
 - Over-commitment solved by pooling and exploitation of diversity
 - Problems with Mandatory Auction with Revenue Allocation
- 2. Special Provisions for Load Growth**
 - Designed to fit with CTR methodology
 - CM Assets need to match CTR obligations, Sufficiency Tests
 - New Service takes RTOW Service: Access Fee and FTOs
 - FTOs acquired by expansion, trade, purchase



FERC CRR Tech Conf. 12/3/02

Special Circumstances, cont.

- 3. FTO Revenues from Residual Auction of existing ATC goes to Revenue Replacement Pool**
 - To offset lost short term revenue to avoid cost shifts, and to possibly reduce External Interface Access Fee
 - Large amount of pre-existing Non-Firm Through and Out Service, limited Firm service
- 4. Financial Transmission Rights are Options (FTOs) and not Obligations**
 - Seasonal and daily diurnal flow and schedule patterns
 - FTR holders would loose value of hedges, cost risk if Obligations
 - Present physical rights are similar to Options
- 5. Flexibility of CTRs and Early Schedule Commitment**
 - Variations in hydro - thermal system
 - Pre-Existing Bilateral Contracts and cost shifts



FERC CRR Tech Conf. 12/3/02

Industry Discussion Questions & Responses

- 1 **Should SMD Order require a Mandatory Auction (after a transition period) or policy to allow Regions to choose allocation procedures**
 - ✓ Allow regional solutions. It is ill advised to use a standard procedure for all regions. Transmission contract rights in the PNW are suited to our needs; conversions of those rights to CRRs (if necessary) must be done in a way that preserves the functionality of those contracts
 - ✓ **How to allocate CRRs such that all customers receive CRRs commensurate with their existing rights; how to allocate CRRs for load growth**
 - ✓ This is a difficult task that RTO West is currently working on (in the form of CTRs). It is imperative that those who understand best the complexities and nuances of these contracts are the ones to figure out how to allocate rights equitably (regional deference). RTO West is taking a different approach from SMD. Instead of squeezing CRRs to fit based on a snapshot of historic use, RTO West approach is to recognize the netting and diversity of transmission use to meet the full contractual rights (no historic snapshot).



FERC CRR Tech Conf. 12/3/02

Industry Discussion Questions & Responses

- 1 **How competing LSEs can acquire CRRs for new or existing load or load served by another LSE**
 - ✓ Again regional deference is the key. It is unlikely that a solution that works for the PNW will work everywhere. The RTO West approach is to have load growth be a part of contract rights protected by CTRs. If this were a firm right the transmission owner would include this expanded right in its catalogue of CTRs and may have to bring additional transmission assets (such as redispatch) via the sufficiency test. This right carries on with the load if that service obligation transfers to another entity (consistent with states' rules for retail access).
4. **How to ensure that auction revenues are returned to load and others who pay embedded transmission costs**
 - ✓ Yes, auction revenues must be returned to load, however that is not enough. The allocation of the revenue to load matters as well. If a party has to hold 10 MWs of CRRs on a congested path and has to out bid competitors to hedge the congestion costs of serving their load it would not be beneficial to pay \$1000 if only \$200 is received back from the auction revenues.



FERC CRR Tech Conf. 12/3/02

Industry Discussion Questions & Responses

- 1 **How to guard against use of CRRs to exercise market power**
 - ✓ Yes, the use of CRRs used to exercise market power should be guarded against, additionally this vigilance should also extend to other inappropriate use as well. The ability to “game” the congestion management system by the use of CRRs is one other example. One of the significant challenges facing the RTO West congestion management design is the need for the hedges afforded by CTRs to extend to schedule changes between day-ahead and real-time. There are legitimate reasons for having this feature (associated with some of our regional resource characteristics). The challenge is accomplishing this in a way that does not present an opportunity for gaming or the exercise of market power.
- 1 **For what reasons should Regional variations be allowed regarding rights allocation**
 - ✓ Again regional deference is the key. It is unlikely that a solution that works for the PNW will work everywhere.



“Consensus” Guiding Principles Likely in SMD Order

- 1. Allow RTOs to allocate CRRs initially to native-load serving entities, whose customers are paying the current system embedded costs;**
- 2. Require "residual" and secondary auctions or equivalent to ensure that all available capacity is utilized and not wasted;**
- 3. Do not diminish existing customers' current rights, aka "Do No Harm";**
- 4. Rights awarded must be simultaneously feasible;**
- 5. Cost shifts must be minimized;**



“Consensus” Guiding Principles, continued

- 6. CRR-type products must have standard definitions, applicable across RTOs; RTOs should be allowed to choose which rights products are offered;**
- 7. CRR allocation method must facilitate new investment in transmission and generation;**
- 8. CRR allocation should not serve a barrier to entry/stymie the development of competitive wholesale markets; benefits of rights/auction revenues must follow load;**
- 9. Incentives should be provided for conversion of existing contract rights to CRRs;**
- 10. CRRs should be purely financial and convey no physical scheduling value.**



Actions and Other Discussion

- **The SMD Order will likely require each RTO to develop transition process that implements the principles, consistent with the region's needs and special circumstances.**
- **Transmission Expansion: Panelists generally agreed that CRRs alone would be inadequate to spur transmission expansion needed to support competitive wholesale markets.**
- **Transition period before Mandatory Auctions begin: Panelists split along sectors - cautioning FERC either against the phase-in period being too long (merchants/industrials) or too short (LSEs).**
- **FERC Staff Takeaways: Staff concluded the forum stating that the Principle list could be revised further based on additional internal consideration. Staff also expressed support for fleshing out the principles list to help aid parties in focusing their January 10 SMD comments.**